



**PAN ORIENT ENERGY CORP.**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015  
(Unaudited)**

**Pan Orient Energy Corp.**  
**Consolidated Statements of Financial Position**  
*(Expressed in Canadian dollars, unless otherwise noted)*  
*(Unaudited)*

(\$000s)	September 30 2015	December 31 2014
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	71,755	26,857
Accounts receivable	1,694	3,910
Taxes receivable	12,507	12,915
	<b>85,956</b>	43,682
<b>Deposits</b>	<b>3,903</b>	4,617
<b>Investment in Joint Venture</b> (note 4)	<b>36,329</b>	-
<b>Property, plant and equipment</b> (note 5)	<b>599</b>	54,314
<b>Exploration and evaluation</b> (note 6)	<b>182,539</b>	187,057
<b>Total assets</b>	<b>309,326</b>	289,670
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	8,235	7,444
Taxes payable	496	1
	<b>8,731</b>	7,445
<b>Employee pension liabilities</b>	-	96
<b>Deferred tax liabilities</b>	<b>6,886</b>	26,121
<b>Decommissioning provision</b> (note 7)	<b>1,314</b>	3,783
<b>Total liabilities</b>	<b>16,931</b>	37,445
<b>Shareholders' equity</b>		
Share capital (note 8)	113,770	117,656
Contributed surplus	25,024	22,362
Non-controlling interest	17,174	17,309
Accumulated other comprehensive income	22,676	14,180
Retained earnings	113,751	80,718
<b>Total shareholders' equity</b>	<b>292,395</b>	252,225
<b>Total liabilities and shareholders' equity</b>	<b>309,326</b>	289,670
<b>Commitments</b> (note 11)		
<b>Contingencies</b> (note 12)		

See accompanying notes to the condensed interim consolidated financial statements.

**Pan Orient Energy Corp.**  
**Consolidated Statements of Operations and Comprehensive Income**  
*(Expressed in Canadian dollars, unless otherwise noted)*  
*(Unaudited)*

(\$000s, except per share amounts)	Three Months Ended September 30		Nine months Ended September 30	
	2015	2014	2015	2014
<b>Revenue</b>				
Oil	-	5,840	809	19,875
Royalties	-	(286)	(38)	(979)
Interest	31	59	118	222
	<b>31</b>	<b>5,613</b>	<b>889</b>	<b>19,118</b>
<b>Expenses</b>				
Loss from investment in Joint Venture (note 4)	481	-	1,064	-
Production and operating	-	766	257	2,688
Transportation	-	95	24	315
Depletion and depreciation	43	3,182	1,049	10,414
Exploration (note 6)	112	21	406	315
General and administrative	867	1,087	3,288	3,767
Stock-based compensation	341	252	1,450	849
Impairment (note 6)	-	-	2,329	-
Foreign exchange gain	(3,482)	(62)	(4,050)	(548)
Gain on disposition of Thailand interest (note 3)	-	-	(38,471)	-
Gain from 2012 sale of Thailand interests	-	-	-	(174)
	<b>(1,638)</b>	<b>5,341</b>	<b>(32,654)</b>	<b>17,626</b>
<b>Income before taxes and non-controlling interest</b>	<b>1,669</b>	<b>272</b>	<b>33,543</b>	<b>1,492</b>
<b>Taxes</b>				
Current income tax expense	-	-	456	1
Deferred income tax expense (recovery)	(671)	627	189	2,246
	<b>(671)</b>	<b>627</b>	<b>645</b>	<b>2,247</b>
<b>Net income (loss)</b>	<b>2,340</b>	<b>(355)</b>	<b>32,898</b>	<b>(755)</b>
<b>Other comprehensive income (loss)</b>				
Foreign exchange gain on translation of foreign operations	7,775	6,359	18,274	6,648
Foreign exchange gain (loss) on translation of Joint Venture	70	-	(1,292)	-
<b>Total other comprehensive income</b>	<b>7,845</b>	<b>6,359</b>	<b>16,982</b>	<b>6,648</b>
<b>Total comprehensive income</b>	<b>10,185</b>	<b>6,004</b>	<b>49,880</b>	<b>5,893</b>
<b>Net income (loss) attributable to:</b>				
Common shareholders	2,341	(363)	33,033	(695)
Non-controlling interest	(1)	8	(135)	(60)
<b>Net income (loss)</b>	<b>2,340</b>	<b>(355)</b>	<b>32,898</b>	<b>(755)</b>
<b>Total comprehensive income (loss) attributable to:</b>				
Common shareholders	10,186	5,996	50,015	5,953
Non-controlling interest	(1)	8	(135)	(60)
<b>Total comprehensive income</b>	<b>10,185</b>	<b>6,004</b>	<b>49,880</b>	<b>5,893</b>
<b>Net income (loss) per share attributable to common shareholders (note 8)</b>				
Basic and diluted	<b>\$ 0.04</b>	<b>\$ (0.00)</b>	<b>\$ 0.59</b>	<b>\$ (0.01)</b>

See accompanying notes to the condensed interim consolidated financial statements.

**Pan Orient Energy Corp.**  
**Consolidated Statements of Changes in Equity**  
*(Expressed in Canadian dollars, unless otherwise noted)*  
*(Unaudited)*

(\$000s)	Share Capital	Contributed Surplus	NCI	AOCI	Retained Earnings	Total
Balance as at December 31, 2013	117,656	21,174	17,310	2,536	83,201	241,877
Net loss	-	-	(60)	-	(695)	(755)
Stock-based compensation expense	-	849	-	-	-	849
Capitalized stock-based compensation	-	187	-	-	-	187
Shares issued to non-controlling interest	-	-	60	-	-	60
Transactions effecting non-controlling interest	-	-	(5)	-	5	-
Other comprehensive income	-	-	-	6,648	-	6,648
Balance as at September 30, 2014	117,656	22,210	17,305	9,184	82,511	248,866
Balance as at December 31, 2014	117,656	22,362	17,309	14,180	80,718	252,225
Net income (loss)	-	-	(135)	-	33,033	32,898
Stock-based compensation expense	-	1,450	-	-	-	1,450
Capitalized stock-based compensation	-	17	-	-	-	17
Normal course issuer bid	(3,886)	1,195	-	-	-	(2,691)
Other comprehensive income	-	-	-	16,982	-	16,982
Disposition of Thailand interest (note 3)	-	-	-	(8,486)	-	(8,486)
Balance as at September 30, 2015	113,770	25,024	17,174	22,676	113,751	292,395

See accompanying notes to the condensed interim consolidated financial statements.

**Pan Orient Energy Corp.**  
**Consolidated Statements of Cash Flows**  
*(Expressed in Canadian dollars, unless otherwise noted)*  
*(Unaudited)*

(\$000s)	Three Months Ended		Nine months Ended	
	September 30	2014	September 30	2014
	2015		2015	2014
<b>Cash Provided From (Used in)</b>				
<b>Operating Activities</b>				
Net income (loss)	2,340	(355)	32,898	(755)
Adjustments for non-cash items:				
Deferred tax expense (recovery)	(671)	627	189	2,246
Depletion and depreciation	43	3,182	1,049	10,414
Stock-based compensation	341	252	1,450	849
Stock-based payments	-	-	-	60
Accretion	6	15	22	48
Loss from investment in Joint Venture (note 4)	481	-	1,064	-
Impairment (note 6)	-	-	2,329	-
Gain on disposition of Thailand interest (note 3)	-	-	(38,471)	-
Gain from 2012 sale of Thailand interests	-	-	-	(174)
Settlement of decommissioning provision	-	(127)	-	(225)
Changes in non-cash working capital	1,553	590	829	201
Cash flow from operating activities	4,093	4,184	1,359	12,664
<b>Investing Activities</b>				
Property, plant and equipment	-	(232)	(62)	(3,237)
Exploration and evaluation	(8,074)	(2,931)	(12,692)	(15,118)
Dispositions of exploration and evaluation assets	-	-	9,764	2,698
Proceeds from 2012 sale of Thailand interests	-	-	-	174
Net proceeds on disposition of Thailand interest (note 3)	-	-	52,028	-
Cash and cash equivalents disposed on sale of Thailand interest	-	-	(5,081)	-
Deposits	41	1,558	(67)	1,314
Change in amounts due from Joint Venture	(54)	-	(98)	-
Changes in non-cash working capital	2,749	1,526	2,607	(8,387)
Cash flow from (used in) investing activities	(5,338)	(79)	46,399	(22,556)
<b>Financing Activities</b>				
Normal course issuer bid	(680)	-	(2,691)	-
Cash flow used in financing activities	(680)	-	(2,691)	-
<b>Change in cash and cash equivalents</b>	<b>(1,925)</b>	<b>4,105</b>	<b>45,067</b>	<b>(9,892)</b>
<b>Effect of foreign exchange on cash and cash equivalents</b>	<b>530</b>	<b>344</b>	<b>(169)</b>	<b>(316)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>73,150</b>	<b>27,174</b>	<b>26,857</b>	<b>41,831</b>
<b>Cash and cash equivalents, end of period</b>	<b>71,755</b>	<b>31,623</b>	<b>71,755</b>	<b>31,623</b>

See accompanying notes to the condensed interim consolidated financial statements.

**Pan Orient Energy Corp.**  
**Notes to the Condensed interim consolidated financial statements**  
*(Expressed in Canadian dollars, unless otherwise noted)*  
*(Unaudited)*

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**1) CORPORATE INFORMATION**

Pan Orient Energy Corp. (the "Company") is an Alberta, Canada corporation with shares listed on the TSX Venture Exchange (TSX-V). The records office and principal address is located at 1505, 505 . 3rd Street S.W., Calgary, Alberta, T2P 3E6.

The Company is an oil and natural gas company which holds properties onshore Thailand and Indonesia as well as an interest in Andora Energy Corporation (Andora) which holds properties in Northern Alberta. The Company is continually pursuing other oil and natural gas exploration opportunities in Asia.

On February 2, 2015 the Company completed the sale of a 49.99% equity interest in Pan Orient Energy (Siam) Ltd. The transaction has resulted in Pan Orient Energy (Siam) Ltd. changing from a wholly owned subsidiary of Pan Orient to a jointly controlled investment effective February 2, 2015 (see note 3).

**2) BASIS OF PRESENTATION**

*Statement of Compliance*

The condensed interim consolidated financial statements for the Company as at September 30, 2015 and for the three and nine months ended September 30, 2015 and 2014 should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2014. The following disclosures are incremental to those included with the annual consolidated financial statements. Certain disclosures that are normally required in the notes to the annual consolidated financial statements have been condensed or omitted. The condensed interim consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in the annual consolidated financial statements.

The condensed interim consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with the International Accounting Standards 34, *Interim Financial Reporting*.

The condensed interim consolidated financial statements were approved by the Company's Board of Directors on November 17, 2015.

**Pan Orient Energy Corp.**  
**Notes to the Condensed interim consolidated financial statements**  
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*(Unaudited)*

**3) DISPOSITION OF THAILAND INTEREST**

On February 2, 2015 the Company sold a 49.99% equity interest in its subsidiary Pan Orient Energy (Siam) Ltd. and retained a 50.01% equity interest in the company. The transaction resulted in Pan Orient Energy (Siam) Ltd. changing from a wholly-owned and controlled subsidiary to a joint arrangement where the Company shares joint control with the purchaser of the 49.99% equity interest. The resulting joint arrangement is classified as a Joint Venture under IFRS 11 and is required to be accounted for using the equity method of accounting rather than consolidated as it had previously been when Pan Orient Energy (Siam) Ltd. was a controlled subsidiary. The change in accounting from consolidation to the equity method has resulted in the accounts of Pan Orient Energy (Siam) Ltd. being derecognized from the consolidated financial statements and a net investment related to the portion of the interest retained being recognized at its estimated fair value upon initial recognition. The estimated fair value of the Company's 50.01% retained interest in Pan Orient Energy (Siam) Ltd. was calculated based on the sale of the 49.99% equity interest in Pan Orient Energy (Siam) Ltd., adjusted for estimated changes in crude oil prices and foreign exchange rates from the date of the November 5, 2014 Share Sale and Purchase Agreement to the closing on February 2, 2015.

The resulting gain on the disposition is calculated as follows:

(\$000s)	
Sale of 49.99% equity interest on February 2, 2015	
Cash proceeds from disposition	53,456
Transaction costs	(1,428)
Net proceeds	52,028
Add:	
Initial recognition of retained interest in Joint Venture, at fair value	38,587
Less:	
Amounts derecognized from the consolidated financial statements:	
Cash and cash equivalents	(5,081)
Non-cash working capital	(440)
Deposits	(781)
Property, plant and equipment	(57,353)
Exploration and evaluation	(20,972)
Employee pension liabilities	105
Decommissioning provision	2,645
Deferred tax liabilities	21,247
Accumulated other comprehensive income	8,486
Net assets derecognized from the consolidated financial statements	(52,144)
Gain on disposition of Thailand interest	
	38,471

**Pan Orient Energy Corp.**  
**Notes to the Condensed interim consolidated financial statements**  
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**4) INVESTMENT IN JOINT VENTURE**

On February 2, 2015 the Company sold a 49.99% equity interest in its subsidiary Pan Orient Energy (Siam) Ltd. and retained a 50.01% equity interest in the company. The Company's retained interest in Pan Orient Energy (Siam) Ltd. is considered a Joint Venture under IFRS and is accounted for using the equity method. On February 2, 2015 the investment was recorded at fair value and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss subsequent to February 2, 2015. Distributions received from the Joint Venture reduce the carrying amount of the investment whereas funding to the Joint Venture increase the carrying amount. The Company's profit or loss includes its share of the Joint Venture's profit or loss and the Company's other comprehensive income includes its share of the Joint Venture's other comprehensive income.

The Company retained a 50.01% interest in Pan Orient Energy (Siam) Ltd. and the carrying amount is as follows:

(\$000s)	September 30	
	2015	2014
Investment in Joint Venture, beginning of period	-	-
Investment in Joint Venture retained (note 3)	38,587	-
Change in amounts due from Joint Venture	98	-
Net loss from Joint Venture, after tax	(1,064)	-
Foreign currency translation	(1,292)	-
Investment in Joint Venture, end of period	36,329	-

Pan Orient Energy (Siam) Ltd. Summarized Financial Information (\$000s)	September 30	
	2015	2014
Current assets	3,528	7,670
Non-current assets	74,733	73,079
Current liabilities	(2,472)	(2,169)
Non-current liabilities	(21,184)	(62,187)
Net assets	54,605	16,393
<b>Pan Orient's Investment in Joint Venture</b>		
Pan Orient's share of net assets	27,307	-
Fair value adjustment on initial recognition	8,924	-
Change in amounts due from Joint Venture	98	-
Investment in Joint Venture	36,329	-



**Pan Orient Energy Corp.**  
**Notes to the Condensed interim consolidated financial statements**  
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The Company's share of income or loss from the Joint Venture is as follows:

Pan Orient Energy (Siam) Ltd. Summarized Statement of Comprehensive Income (loss) (\$000s)	Three Months Ended September 30		Nine months Ended September 30	
	2015	2014	2015	2014
Oil revenue	3,115	5,840	9,055	19,875
Royalties	(154)	(286)	(446)	(979)
Interest income	1	2	12	17
Total net revenue	2,962	5,556	8,621	18,913
Production and operating	719	766	2,252	2,688
Transportation	87	95	236	315
Depletion and depreciation	3,827	3,147	9,832	10,296
General and administrative	344	386	1,179	1,217
Foreign exchange loss <sup>(1)</sup>	70	-	3,024 <sup>(1)</sup>	-
Total expenses	5,047	4,394	16,523	14,516
Current income tax	-	-	1	1
Deferred income tax expense (recovery)	(1,122)	582	(2,525)	2,236
Total tax expense (recovery)	(1,122)	582	(2,524)	2,237
Net income (loss)	(963)	580	(5,378)	2,160
Other comprehensive income	139	2,619	2,389	2,923
Total comprehensive income (loss)	(824)	3,199	(2,989)	5,083
<b>Pan Orient's share of income, consolidated into financial statements, up to February 1, 2015 (100% net to Pan Orient)</b>				
Pan Orient's share of net income (loss) <sup>(1)</sup>	-	580	296 <sup>(1)</sup>	2,160
Pan Orient's share of other comprehensive income (loss)	-	3,199	4,975	2,923
<b>Pan Orient's share of income (loss) from Joint Venture under equity method, subsequent to February 1, 2015 (50.01% net to Pan Orient)</b>				
Pan Orient's share of net loss	(481)	-	(1,064)	-
Pan Orient's share of other comprehensive income (loss)	70	-	(1,292)	-

*(1) Net loss includes foreign exchange loss of \$3.0 million in the Joint Venture from repayment of intercompany loans that is eliminated on consolidation.*

**Pan Orient Energy Corp.**  
**Notes to the Condensed interim consolidated financial statements**  
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*(Unaudited)*

**5) PROPERTY, PLANT AND EQUIPMENT**

A reconciliation of the carrying amount of property, plant and equipment as at September 30, 2015 is set out below.

(\$000s)	Thailand	Indonesia	Canada	Total
<b>Cost</b>				
At December 31, 2014	98,626	223	1,348	100,197
Additions	60	2	-	62
Transfers from explorations and evaluation	16	-	-	16
Changes in decommissioning provision	(138)	-	-	(138)
Foreign currency translation	8,971	47	-	9,018
Disposition of Thailand interest (note 3)	(107,535)	-	-	(107,535)
At September 30, 2015	-	272	1,348	1,620
<b>Accumulated depletion and depreciation</b>				
At December 31, 2014	(45,012)	(180)	(691)	(45,883)
Depletion and depreciation	(943)	(46)	(60)	(1,049)
Foreign currency translation	(4,227)	(44)	-	(4,271)
Disposition of Thailand interest (note 3)	50,182	-	-	50,182
At September 30, 2015	-	(270)	(751)	(1,021)
<b>Net book value</b>				
At December 31, 2014	53,614	43	657	54,314
At September 30, 2015	-	2	597	599

General and administrative costs totaling \$37 thousand (September 30, 2014 - \$0.3 million) that were directly related to development activities in Thailand have been capitalized as property, plant and equipment.

Future development costs of \$18.3 million (September 30, 2014 - \$17.8 million) in Thailand were included in the depletable base when calculating depletion prior to disposition on February 2, 2015.

**6) EXPLORATION AND EVALUATION**

A reconciliation of the carrying amount of exploration and evaluation (%E&E+) assets as at September 30, 2015 is set out below.

(\$000s)	Thailand	Indonesia	Canada	Total
At December 31, 2014	19,203	91,446	76,408	187,057
Additions	-	8,725	3,984	12,709
Transfers to property, plant and equipment	(16)	-	-	(16)
Changes in decommissioning provision	-	40	45	85
Foreign currency translation	1,785	13,984	-	15,769
Impairment	-	(2,329)	-	(2,329)
Disposition of interest in East Jabung PSC	-	(9,764)	-	(9,764)
Disposition of Thailand interest (note 3)	(20,972)	-	-	(20,972)
At September 30, 2015	-	102,102	80,437	182,539

General and administrative costs totaling \$1.7 million (September 30, 2014 - \$1.8 million) and stock-based compensation totaling \$17 thousand (September 30, 2014 - \$187 thousand) that were directly related to exploration and evaluation activities have been capitalized as exploration and evaluation assets.

As at September 30, 2015 Andora's Sawn Lake steam assisted gravity drainage (%SAGD+) demonstration project has not yet proven that it is commercially viable and all related costs and revenues are being capitalized as E&E assets until commercial viability is achieved. Commercial viability is determined based on several factors including the assignment of proven and probable reserves. Upon being determined commercially viable the related E&E assets will be tested for impairment and reclassified to property, plant and equipment where they will be depleted.

**Pan Orient Energy Corp.**  
**Notes to the Condensed interim consolidated financial statements**  
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Recoverability of the capitalized costs is dependent on successfully completing development of the properties. With respect to the Canadian properties, recoverability is also dependent on determining the technical feasibility of the project. Capitalized costs incurred to date do not necessarily represent present or future values.

In 2013 the Company recorded an impairment provision on its intangible assets related to the Citarum PSC in Indonesia. In 2015 all additional costs related to the Citarum PSC have been expensed as exploration expense.

In 2015 the Company recorded a \$2.3 million impairment charge for equipment inventory and other costs in Indonesia related to the Citarum PSC. On July 1, 2015 the Company submitted an application to the government of Indonesia to relinquish the Citarum PSC as it was set to expire on October 6, 2015. The final relinquishment of the Citarum PSC will be dependent upon final approvals from the Indonesian government which could extend beyond the expiry date.

On June 1, 2015 the Company completed the farmout of a 51% interest in the East Jabung PSC in Indonesia and received an upfront payment of \$9.8 million (US\$8.0 million less 5% withheld for transfer taxes, plus US\$181 thousand for reimbursed G&A). The Company has recorded a tax provision of US\$369 thousand for expected branch profits tax that the Company expects to be payable in Indonesia on the transaction. The branch profit tax provision has been recorded as current tax expense.

**7) DECOMMISSIONING PROVISION**

(\$000s)	Nine Months Ended September 30	
	2015	2014
Decommissioning provision, beginning of period	3,783	3,459
Obligations incurred	40	99
Revisions to obligations	(93)	(224)
Decommissioning expenditures	-	(98)
Accretion	22	33
Foreign currency translation	207	(4)
Disposition of Thailand interest (note 3)	(2,645)	-
Decommissioning provision, end of period	1,314	3,265

The decommissioning provision is based on the Company's net ownership of wells and facilities in Thailand, Indonesia and Canada, management's estimates of costs to abandon and reclaim those wells and facilities and the potential future timing of the costs to be incurred. Total undiscounted cash flows, escalated at 2.0% for inflation, required to settle the Company's decommissioning provision are estimated to be \$2.0 million (September 30, 2014 . \$3.6 million). Payments to settle the provision will be made over the operating lives of the underlying assets and are estimated to be incurred between 2016 and 2050. Estimated costs have been discounted at the risk-free interest rate in the jurisdiction in which the expenditure is expected to be incurred which averaged at 2% at September 30, 2015 (September 30, 2014 . 2%).

**8) SHARE CAPITAL**

**(a) Authorized**

Unlimited Common Voting Shares  
Unlimited Preferred Shares

**(b) Issued and Outstanding Class A Common Shares**

	Shares Issued	Shares Outstanding	Amount (\$000s)
Common Shares			
Balance as at December 31, 2014	56,760,307	56,760,307	117,656
Shares purchased under normal course issuer bid	-	(1,874,900)	(3,886)
Shares cancelled	(1,760,000)	-	-
Balance as at September 30, 2015	55,000,307	54,885,407	113,770

During the nine months ended September 30, 2015 the Company has purchased 1,874,900 shares under a normal course issuer bid at prices ranging from \$1.09 to \$1.67 per share, averaging \$1.44 per share. As of September 30, 2015 the Company has cancelled 1,760,000 of the shares purchased under the normal course issuer bid.

**Pan Orient Energy Corp.**  
**Notes to the Condensed interim consolidated financial statements**  
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**(c) Options to Purchase Common Shares**

In the third quarter of 2015 the Company granted 400,000 Share Appreciation Rights (note 8e) in exchange for cancelling 400,000 stock options.

	Number of Options	Weighted Average Exercise Price (\$)
Options outstanding at December 31, 2014	3,211,000	2.70
Granted	2,445,000	1.77
Cancelled	(400,000)	4.15
Options outstanding at September 30, 2015	5,256,000	2.16

Options Outstanding at September 30, 2015				Options Exercisable at September 30, 2015		
Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (years)	Number of Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (years)
1.29 . 2.00	3,631,000	1.82	4.01	1,605,666	1.85	3.80
2.01 . 4.00	1,535,000	2.72	1.93	1,535,000	2.72	1.93
4.01 . 6.00	50,000	5.95	0.18	50,000	5.95	0.18
6.01 . 6.32	40,000	6.32	0.16	40,000	6.32	0.16
1.29 . 6.32	5,256,000	2.16	3.34	3,230,666	2.38	2.81

The fair value of the stock options granted has been estimated on the grant dates using the Black-Scholes option pricing model. Weighted average assumptions and resultant fair values for stock options granted during the nine months ended September 30, 2015 and 2014 are as follows:

	Nine months Ended September 30	
	2015	2014
Risk free interest rate (%)	1	-
Expected life (years)	5	-
Expected volatility (%)	63	-
Dividend per share (%)	-	-
Forfeiture rate (%)	10	-
Weighted average fair value, per option	<b>\$0.94</b>	-

**(d) Share Appreciation Rights**

In the third quarter of 2015 the Company issued 400,000 Share Appreciation Rights (%SARs+) in exchange for cancelling 400,000 options to purchase common shares. A SAR entitles the holder to receive a cash payment equal to the difference between the reference price of the SAR and the market price of the Company's common shares on the date the SAR is exercised and is accounted for under IFRS as a cash-settled plan. The SARs were granted with a reference price of \$4.15 being the same as the exercise price of the options that were cancelled and have an expiry date of January 24, 2018.

	Number of SARs	Weighted Average Reference Price (\$)
SARs outstanding at December 31, 2014	-	-
Granted	400,000	4.15
SARs outstanding at September 30, 2015	400,000	4.15

**Pan Orient Energy Corp.**  
**Notes to the Condensed interim consolidated financial statements**  
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The fair value of the SARs granted has been estimated on the grant dates using the Black-Scholes option pricing model. Weighted average assumptions and resultant fair values for SARs granted during the nine months ended September 30, 2015 and 2014 are as follows:

	Nine months Ended September 30	
	2015	2014
Risk free interest rate (%)	1	-
Expected life (years)	2	-
Expected volatility (%)	54	-
Dividend per share (%)	-	-
Forfeiture rate (%)	10	-
Weighted average fair value, per SAR	<b>\$0.06</b>	-

During the nine months ended September 30, 2015 the Company has recognized an expense of \$22 thousand associated with the SARs.

**(e) Andora Energy Corporation**

**i) Issued and Outstanding Class A Common Shares**

As at September 30, 2015 Andora had 100.1 million (September 30, 2014 . 100.1 million) common shares issued and outstanding of which Pan Orient held 71.8% (September 30, 2014 . 71.8%).

**ii) Options to Purchase Common Shares of Andora**

		Number of options	Weighted average exercise price (\$)
Balance as at January 1 and September 30, 2015		9,552,035	0.60
Options Outstanding at September 30, 2015			
Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (years)
0.60	9,552,035	0.60	0.92
Options Exercisable at September 30, 2015			
Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (years)
0.60	9,552,035	0.60	0.92

**(f) Earnings per Share Attributable to Common Shareholders**

A reconciliation of the weighted average number of common shares used to calculate diluted net income (loss) per share is as follows:

	Three months Ended September 30		Nine months Ended September 30	
	2015	2014	2015	2014
Weighted average common shares . basic	<b>55,200,244</b>	56,760,307	<b>55,996,903</b>	56,760,307
Dilutive effect of stock options	<b>2,043</b>	-	<b>3,613</b>	-
Weighted average common shares . diluted	<b>55,202,287</b>	56,760,307	<b>56,000,516</b>	56,760,307

Options to purchase 5,006,000 common shares outstanding at September 30, 2015 (September 30, 2014 . 3,211,000) were not included in the computation of weighted average diluted common shares because they were anti-dilutive.

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**9) FINANCIAL INSTRUMENTS**

The Company's reporting currency is the Canadian dollar and its functional currencies are the Canadian dollar, the Thai baht and the U.S. dollar (USD). Changes in foreign exchange rates between the Canadian dollar and the U.S. dollar and Thai baht can affect earnings.

As at September 30 the following financial instruments were denominated in currencies other than the Canadian dollar:

	September 30, 2015			September 30, 2014		
	Thai baht (000s)	US dollar (\$000s)	Indonesia Rupiah (000s)	Thai baht (000s)	US dollar (\$000s)	Indonesia Rupiah (000s)
Cash and cash equivalents	-	43,128	1,029,167	213,711	4,215	634,885
Accounts receivable	-	14	-	84,465	101	-
Deposits	-	536	39,370,353	31,364	378	-
Accounts payable and accrued liabilities	-	(5,388)	(3,996,325)	(31,373)	(1,929)	(1,918,484)
Taxes payable	-	(369)	-	39	-	-
Net exposure in functional currency	-	37,921	36,403,195	298,206	2,765	(1,283,599)
Net exposure in Canadian dollars <sup>(1)</sup> (\$000s)	-	50,774	3,352	10,393	3,090	(122)

(1) Translated at September 30, 2015 and 2014 exchange rates.

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**10) SEGMENTED INFORMATION**

The Company has properties in three countries, each of which is considered a reportable segment. The three segments consist of: 1) partially developed conventional petroleum and natural gas properties in Thailand; 2) undeveloped petroleum and natural gas properties in Indonesia; and 3) an undeveloped heavy oil property in Canada. The following table provides information for each geographical segment for the period ended September 30:

As at: (\$000s)	September 30, 2015				December 31, 2014			
	Thailand	Indonesia	Canada	Total	Thailand	Indonesia	Canada	Total
Property, plant and equipment	-	2	597	599	53,614	43	657	54,314
Exploration and evaluation	-	102,102	80,437	182,539	19,203	91,446	76,408	187,057
Other assets	9	5,003	84,847	89,859	8,474	6,342	33,483	48,299
Investment in Thailand Joint Venture	36,329	-	-	36,329	-	-	-	-
<b>Total assets</b>	<b>36,338</b>	<b>107,107</b>	<b>165,881</b>	<b>309,326</b>	<b>81,129</b>	<b>97,831</b>	<b>110,548</b>	<b>289,670</b>
Nine months Ended: (\$000s)	September 30, 2015				September 30, 2014			
	Thailand <sup>(1)</sup>	Indonesia	Canada	Total	Thailand	Indonesia	Canada	Total
Oil revenue	809	-	-	809	19,875	-	-	19,875
Royalties	(38)	-	-	(38)	(979)	-	-	(979)
Interest revenue	1	-	117	118	16	-	206	222
<b>Total net revenue</b>	<b>772</b>	<b>-</b>	<b>117</b>	<b>889</b>	<b>18,912</b>	<b>-</b>	<b>206</b>	<b>19,118</b>
Loss from Joint Venture	1,064	-	-	1,064	-	-	-	-
Production and operating	257	-	-	257	2,688	-	-	2,688
Transportation	24	-	-	24	315	-	-	315
Depletion and depreciation	943	46	60	1,049	10,296	35	83	10,414
Exploration	-	406	-	406	-	315	-	315
General and administrative	202	1,248	1,838	3,288	1,231	932	1,604	3,767
Stock based compensation	-	-	1,450	1,450	-	-	849	849
Impairment	-	2,329	-	2,329	-	-	-	-
Foreign exchange (gain) loss	8	805	(4,863)	(4,050)	1	98	(647)	(548)
Gain on disposition of Thailand interests	-	-	(38,471)	(38,471)	-	-	-	-
Gain from 2012 sale of Thailand interests	-	-	-	-	-	-	(174)	(174)
<b>Total expenses</b>	<b>2,498</b>	<b>4,834</b>	<b>(39,986)</b>	<b>(32,654)</b>	<b>14,531</b>	<b>1,380</b>	<b>1,715</b>	<b>17,626</b>
Current income tax	-	456	-	456	1	-	-	1
Deferred income tax expense (recovery)	(340)	-	529	189	2,236	-	10	2,246
<b>Total taxes</b>	<b>(340)</b>	<b>456</b>	<b>529</b>	<b>645</b>	<b>2,237</b>	<b>-</b>	<b>10</b>	<b>2,247</b>
Net income (loss) attributable to:								
Common shareholders	(1,386)	(5,290)	39,709	33,033	2,144	(1,380)	(1,459)	(695)
Non-controlling interest	-	-	(135)	(135)	-	-	(60)	(60)
<b>Total net income (loss)</b>	<b>(1,386)</b>	<b>(5,290)</b>	<b>39,574</b>	<b>32,898</b>	<b>2,144</b>	<b>(1,380)</b>	<b>(1,519)</b>	<b>(755)</b>
Capital expenditures	60	8,728	3,966	12,754	3,916	5,840	8,599	18,355

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Three Months Ended: (\$000s)	September 30, 2015				September 30, 2014			
	Thailand <sup>(1)</sup>	Indonesia	Canada	Total	Thailand	Indonesia	Canada	Total
Oil revenue	-	-	-	-	5,840	-	-	5,840
Royalties	-	-	-	-	(286)	-	-	(286)
Interest revenue	-	-	31	31	2	-	57	59
Total net revenue	-	-	31	31	5,556	-	57	5,613
Loss from Joint Venture	481	-	-	481	-	-	-	-
Production and operating	-	-	-	-	766	-	-	766
Transportation	-	-	-	-	95	-	-	95
Depletion and depreciation	-	25	18	43	3,147	11	24	3,182
Exploration	-	112	-	112	-	21	-	21
General and administrative	12	462	393	867	395	380	312	1,087
Stock based compensation	-	-	341	341	-	-	252	252
Foreign exchange (gain) loss	-	665	(4,147)	(3,482)	1	16	(79)	(62)
Total expenses	493	1,264	(3,395)	(1,638)	4,404	428	509	5,341
Deferred income tax expense	-	-	(671)	(671)	582	-	45	627
Total taxes	-	-	(671)	(671)	582	-	45	627
Net income (loss) attributable to:								
Common shareholders	(493)	(1,264)	4,098	2,341	570	(428)	(505)	(363)
Non-controlling interest	-	-	(1)	(1)	-	-	8	8
Total net income (loss)	(493)	(1,264)	4,097	2,340	570	(428)	(497)	(355)
Capital expenditures	-	7,175	899	8,074	483	803	1,877	3,163

(1) Amounts for Thailand include operating results from January 1, 2015 to February 1, 2015 (100% net to Pan Orient). The amounts subsequent to February 1, 2015 are not included above and are reported in the loss from investment in Joint Venture (50.01% net to Pan Orient). (see Note 3 and 4)



## 11) COMMITMENTS

As at September 30, 2015 the Company's estimated outstanding capital commitments are as follows:

Country and Concession Name	Remaining Work Program Commitment	Obligation Ending	Estimated Net Financial Commitment	
			USD <sup>(1)</sup> (\$000s)	CAD <sup>(1)</sup> (\$000s)
<b>Indonesia</b> <sup>(2)</sup>				
East Jabung <sup>(3)</sup>	▪ Geological studies	November 2016	75	101
	▪ Drill two exploration wells	November 2016	1,470	1,974
<b>Total Indonesia</b>			<b>1,545</b>	<b>2,075</b>
<b>Canadian Heavy Oil Sands – Andora Energy Corporation</b>				
Sawn Lake, Alberta	▪ Natural gas pipeline tie-in and tariff	October 2018	207	277
<b>Total Canada</b>			<b>207</b>	<b>277</b>
			<b>1,752</b>	<b>2,352</b>

(1) Translated at September 30, 2015 exchange rates.

(2) Indonesia financial commitments as provided above represent the required initial 3-year firm exploration work program required under the PSC. The extension of these initial 3-year firm exploration work program commitments have been successfully negotiated in the past with the Government of Indonesia ("GOI"). The deadlines for commitments and potential extension of the total exploration period with potential additional commitments is determined on a year-by-year basis as part of an annual submission of a work program which is approved by the GOI. Although extension of the deadline for completion of the 3-year firm exploration work program is a departure from the original contract, it is considered standard practice in Indonesia. In the past, such applications on behalf of Pan Orient have been approved by the GOI and management has no reason to believe that future requests will not be granted approval; however, there is no guarantee. Upon default of a commitment related to any of the first three years of a PSC, the operator is required to relinquish 15% of the original PSC area (the actual acreage relinquished is at the discretion of the operator). Depending on the stage of the PSC, failure to fulfill the required firm commitments may also result in penalty payment equal to the unfulfilled commitments and/or forfeiture of the PSC.

(3) In the fourth quarter of 2014 the Company entered into a farmin agreement for the transfer of a 51% direct working interest and operatorship of the East Jabung PSC. The agreement includes a firm commitment by the farminee to fund the first USD \$10.0 million towards the first exploration well and a contingent commitment to fund the first USD \$5.0 million towards an appraisal well, if justified. The transaction closed on June 1, 2015 and the Company transferred the operatorship of the PSC to the farminee and reduced its interest to 49%. The commitment provided above represents the Company's 49% interest in the second exploration well and its share of the outstanding geological studies.

Management's estimate of the minimum amount to fulfill the commitments in Indonesia is based either on the amount stated in the PSC agreement, or the work program budget approved by the GOI if the work program activity has commenced.

Actual expenditures required to carry out these commitments may be significantly different from the estimates. The Company intends to fund commitments through expected cash flows from Thailand and the Company's existing cash balance.

## 12) CONTINGENCIES

- The Company has significant international operations and subsidiaries incorporated outside of Canada. The international operations and earnings of the Company and its affiliates have been, and may in the future be, affected from time to time in varying degree by political developments and laws and regulations, such as forced divestiture of assets; restrictions on production, imports and exports; price controls; tax increases and retroactive tax claims; expropriation of property; cancellation of contract rights and environmental regulations. Both the likelihood of such occurrences and their overall effect upon the Company can vary greatly from country to country and are not predictable.
- The Tax Directorate General of Indonesia assessed several oil and gas companies operating in Indonesia for 2012, 2013 and 2014 Land and Building Tax using a new framework, especially for the calculation of surface Land and Building Tax on offshore acreage, which is being challenged by the impacted oil and gas companies in Indonesia. Pan Orient was issued a Tax Assessment and Notification for the East Jabung PSC for 78,705 million Indonesian rupiah or \$7.2 million when translated at the September 30, 2015 exchange rate. The potential accrued penalty for the unpaid tax to the end of the period was an additional \$2.6 million. Of the total amount for the assessed Land and Building Tax and penalty of \$9.8 million, \$9.2 million is associated with the 2013 assessment on the Company's offshore acreage which the Company applied to voluntarily relinquish in the fourth quarter of 2013 and finalized in 2014.

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Pan Orient lodged an Objection with the Indonesian Tax Office in September 2013 in respect of the 2012 and 2013 Land and Building Tax for the East Jabung PSC and on September 25, 2014 the Indonesia Tax Office rejected the Company's Objection and also rejected the objections of the other oil and gas companies on this issue. In the fourth quarter of 2014 the Company filed an appeal to the Tax Office's Objection with the Indonesian Tax Court and, as required by Indonesian law to file an appeal with the Indonesian Tax Court, paid a refundable deposit of \$3.6 million, which is equal to 50% of the tax being disputed. Management believes that the Company has a strong position against the taxes assessed and has not recorded any provision in the condensed interim consolidated financial statements. In the event the Company loses the appeal, it has the option to further appeal to a higher court level which may take three years to deliver a verdict or the Company can pay the total taxes less the already paid 50% deposit. The Company would also be required to pay a penalty up to a maximum of \$2.6 million should it lose the appeal and exhaust all other appeal options.

With respect to the Land and Building Tax assessment for 2014, the Tax Office rejected the Company's objection in the first quarter of 2015 on the assessment of 2014 subsurface Land and Building tax and the Company made an additional \$80 thousand deposit to appeal the 2014 subsurface Land and Building Taxes along with the 2012 and 2013 assessments.

In the second quarter of 2015 Pan Orient completed the transfer of a 51% interest and operatorship of the East Jabung PSC. The Company is responsible for the contingency of the Land and Building Tax obligation of the East Jabung PSC as discussed in this note to the financial statements.



**PAN ORIENT ENERGY CORP.**

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